

Message Text

LIMITED OFFICIAL USE

PAGE 01 COPENH 00092 100830Z

14

ACTION XMB-04

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 /057 W

----- 046564

R 091615Z JAN 76

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC PRIORITY 2032

INFO AMEMBASSY PARIS

LIMITED OFFICIAL USE COPENHAGEN 0092

E.O. 11652: N/A

TAGS: EFIN, DA

SUBJECT: EXIM BANK FINANCING STERLIN AIRWAYS

AIRCRAFT PURCHASE

REF: STATE 305333, DECMEBER 31, 1975

SUMMARY: DISCUSSIONS WITH STERLING AIRWAYS PROVIDED BACKGROUND INFORMATION ON THE DISPUTE WITH SNIA. WHILE STERLING HOPES TO REACH AN AMICABLE SETTLEMENT WITH SNIA IN TWO MONTHS AND DOES SEEM TO FAVOR PURCHASE OF THE BOEINGS, THE POSSIBILITY OF THE DISPUTE GOING TO COURT OR ARBITRATION OR A DECISION TO PURCHASE THE SNIA AIRBUS AIRCRAFT CANNOT BE RULED OUT. END SUMMARY.

1. AAGE JACOBSEN, MANAGER OF STERLING ECONOMIC DEPARTMENT, PROVIDED EMBOFF FOLLOWING BACKGROUND INFORMATION, SOME OF WHICH EXIM MAY ALREADY HAVE:

A. THE SIX CARAVELLES WERE GROUNDED FROM JUNE 6 TO 29, 1975. DURING THIS PERIOD OF HEAVY TOURIST TRAFFIC STERLING RENTED OTHER AIRCRAFT. THE RENTAL COST IS PART OF CLAIM AGAINST SNIA.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 COPENH 00092 100830Z

B. SNIA IS UNDERTAKING RESKINNING OF THE

STERLING CARAVELLES, THREE AT A TIME, AT A COST OF MORE THAN ONE MILLION DOLLARS EACH, WHICH IS BEING BORNE BY SNIA.

C. REMAINING CARAVELLES STILL BEING OPERATED WITH FREQUENT, THOROUGH INSPECTION REQUIRED.

D. STERLING DID NOT ACCEPT SNIA OFFER OF NO CHARGE LOAN OF TWO AIRBUS AIRCRAFT, BECAUSE, ACCORDING TO JACOBSEN, STERLIN IS NOT RPT NOT SET UP TECHNICALLY TO USE THE AIRBUS.

2. JACOBSEN INDICATED THAT A SETTLEMENT SATISFACTORY TO STERLING COULD BE REACHED WITHIN TWO MONTHS. IF NOT, THE DISPUTE WOULD THEN GO TO COURT OR ARBITRATION. IN DISCUSSING PROSPECTS FOR A SETTLEMENT WITH SNIA, HE STATED THAT SNIA MUST BE FLEXIBLE AND MUST RESOLVE THIS DISPUTE IN A SATISFACTORY MANNER IF THEY ARE TO REMAIN COMPETITIVE. HE ADDED THAT THEY HAVE NOT BEEN "TOO GOOD" TO DEAL WITH IN THE PAST. HE POINTED OUT THAT IT WAS FRENCH LAW ITSELF RATHER THAN A CONTRACTUAL OBLIGATION WHICH OBLIGATED SNIA TO RECTIFY THE CARAVELLE MATERIALS FAILURE. JACOBSEN SPECULATED THAT IF THIS PROBLEM HAD ARISEN WITH AIRCRAFT PURCHASED ELSEWHERE, BECUASE OF THE TIME LAPSE FROM DATE OF PURCHASE, THERE WOULD HAVE BEEN NO RPT NO LEGAL OBLIGATION ON THE PART OF THE MANUFACTURER TO RECTIFY THE SITUATION AT ITS OWN EXPENSE. ON THE OTHER HAND, HE STATED THAT IT TAKES THREE OR FOUR TIMES LONGER TO REACH A FINAL SETTLEMENT ON SUCH A CLAIM WITH A STATE-OWNED COMPANY, SUCH AS SNIA THAN IT WOULD WITH A PRIVATELY-OWNED FIRM.

3. IN RESPONSE TO EMBOFF QUESTION, JACOBSEN STATED THAT STERLING IS SERIOUSLY CONSIDERING THE BOEING PURCHASE "DEPENDING UPON CERTAIN CONDITIONS; I.E., FINANCING TERMS." HE STATED THAT HE HAS NOT RECEIVED ANY INFORMATION ON WHAT THE FINANCING TERMS WOULD BE BUT UNDERSTANDS THE INTEREST RATE WOULD BEBETWEEN EIGHT AND ONE HALF AND NINE PERCENT. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 COPENH 00092 100830Z

HE STATED THAT BANK GUARANTEE CHARGES WOULD TOTAL ONE AND A HALF PERCENT, MAKING TOTAL FINANCE CHARGES OF ABOUT TEN PERCENT. THIS, HE STATED, IS TOO HIGH. JACOBSEN INDICATED THAT THE TERMS OF THE COMPETITIVE AIRBUS OFFERS ARE CONFIDENTIAL.

4. JACOBSEN EMPHASIZED THAT STERLING DOES NOT RPT NOT WANT SNIA TO KNOW THAT STERLING IS CONSIDERING

PURCHASE OF THE BOEING AIRCRAFT, AS SUCH KNOWLEDGE MIGHT ADVERSELY AFFECT THE SETTLEMENT WITH SNIA. AT THE SAME TIME, HE DID NOT RULE OUT ENTIRELY THE POSSIBILITY OF PURCHASE OF THE SNIA AIRBUS AIRCRAFT, THOUGH HE DID STATE THAT STERLING CONSIDERS THE AIRBUS CAPACITY TO BE IN EXCESS OF THEIR REQUIREMENTS AND IMPLIED THAT THE AIRBUS DELIVERY ONE TO TWO YEARS LATER THAN THE BOEINGS WOULD NOT RPT NOT BE SUITABLE.

5. COMMENT: WE BELIEVE THAT STERLING FAVORS PURCHASE OF THE BOEINGS FOR REASONS OUTLINED ABOVE. HOWEVER, IT WILL NOT MAKE A DECISION FOR AT LEAST TWO MONTHS. PURCHASE OF THE AIRBUS CANNOT BE ENTIRELY RULED OUT, (BUT STERLING SEEMS TO BE USING THEIR POSSIBLE PURCHASE MAINLY AS A PLOY TO EFFECT A SATISFACTORY SETTLEMENT OF ITS DISPUTE WITH SNIA. DEAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DISPUTES, AIRCRAFT, TOURISM, SUPPLEMENTAL AIRLINES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976COPENH00092
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760009-0935
From: COPENHAGEN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760169/aaaacjgk.tel
Line Count: 133
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION XMB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 305333
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 14 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 APR 2004 by greeneet>; APPROVED <15 APR 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXIM BANK FINANCING STERLIN AIRWAYS AIRCRAFT PURCHASE
TAGS: EFIN, DA, BOEING, STERLING AIRLINES, (JACOBSEN, AAGE)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006